



BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTEN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

AUG 28 2007

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IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST GAS CORPORATION –  
FILING FOR APPROVAL OF ITS  
COMMERCIAL EQUIPMENT PROGRAM

DOCKET NO. G-01551A-04-0876

DECISION NO. 69880

ORDER

Open Meeting  
August 21 and 22, 2007  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On June 26, 2006, Southwest filed an application for approval of its Commercial Equipment ("Commercial Equipment") program, as required by Decision No. 68487. Decision No. 68487 requires that the Company file detailed descriptions of its demand-side management ("DSM") programs within 120 days of the Commission's February 23, 2006 Order approving rate changes effective March 1, 2006.

3. The proposed program would be newly implemented, but includes the High-Efficiency Pre-Rinse Spray Valve component already approved by the Commission on June 27, 2007. The Commercial Equipment program is one of seven demand-side management ("DSM") programs included in Southwest's 2006 Arizona Demand Side Management Program Plan ("Plan").

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1           4.       As proposed in the Plan, the Commercial Equipment program would be available to  
2 new and existing Southwest customers with commercial kitchen facilities. Southwest  
3 representatives would provide assistance to commercial customers in purchasing and installing  
4 energy-efficient kitchen equipment. Rebates equal to the incremental cost of each measure would  
5 be provided to customers who install such measures.

6           5.       Staff has recommended that the size of the incentives be reviewed if participation in  
7 the program is at or above the anticipated levels.

8           6.       The objective of the Commercial Equipment program is to promote the use of  
9 energy-efficient equipment at commercial cooking facilities, including restaurants, schools, and  
10 hospitals; the proposed measures include griddles, steamers and fryers, along with the pre-rinse  
11 spray valves previously approved by the Commission. Adoption of high-efficiency commercial  
12 equipment will conserve both energy and water, and reduce pollution. In addition to facilitating  
13 individual installations, the Commercial Equipment program is intended to achieve market  
14 transformation of the restaurant industry and increase general demand for high-efficiency kitchen  
15 equipment.

16          7.       Staff has recommended that rebates be paid only to participants who are purchasing  
17 high-efficiency natural gas commercial equipment for installation in areas serviced by Southwest.  
18 With respect to replacing existing equipment, Staff has recommended that the primary focus of the  
19 program be replacement of less-efficient natural gas-powered equipment, rather than replacement  
20 of less-efficient electric equipment.

21          8.       According to the Plan, during its first year the Commercial Equipment program will  
22 be advertised in restaurant trade publications, on the radio, on the Southwest website, through  
23 postcard distributions, and through participation at culinary events and at trade shows. Additional  
24 measures may include direct mail, brochures, telephone calls, email and in-person visits. There  
25 will also be seminars and workshops designed to train chain and franchise owners on high-  
26 efficiency equipment and maintenance.

27          9.       The above marketing will continue in the second and third years, with the addition  
28 of educational events at the Southwest Tempe Food Service Center. Marketing will include the

1 spray valve distribution program in the first year. The Commission has previously ordered that  
2 Southwest continue to promote high-efficiency pre-rinse water spray valves as part of its  
3 marketing, if Southwest's participation in the program is extended beyond 2007.

4 10. Southwest representatives will encourage the Company's commercial customers to  
5 install high-efficiency equipment in their commercial kitchen facilities. Southwest or its designee  
6 will verify installation of the equipment, assist in the rebate application process, and process  
7 rebates.

8 11. With respect to the spray valve distribution only, Southwest will contribute  
9 additional funding and Arizona Department of Water Resources ("ADWR") will supervise the  
10 delivery and installation. ADWR has also hired a contractor to conduct a survey to evaluate the  
11 distribution funded through Southwest and Salt River Project ("SRP").

12 12. Southwest's estimates for the potential market and per-year levels of participation  
13 for each measure are listed in the table below, along with the proposed individual and annual  
14 incentive amounts.

15 SOUTHWEST'S PROPOSED INCENTIVES AND ESTIMATED PARTICIPATION LEVELS

Commercial Equipment	Market Potential	Estimated Participation (Year 1)	Estimated Participation (Years 2 and 3)	Proposed Incentive	Totals: Year 1	Totals: Years 2 and 3
Water heater	18,000	111	140	Up to \$1,700	\$188,700	\$238,700
Griddle	18,000	65	79	Up to \$2,102	\$136,630	\$166,557
Steamer	1,800	20	39	Up to \$ 532	\$10,640	\$20,640
Fryer	30,000	101	121	Up to \$2,583	\$260,883	\$310,883
Spray valve	18,000	5,000	n/a	n/a	\$124,925	n/a
Total					\$721,778	\$736,780

22  
23 13. The changes from Year 1 to Years 2 and 3 reflect the initial assumption that the  
24 spray rinse distribution would end after Year 1. If continuing the distribution program proves cost-  
25 effective, either through ADWR or as part of Southwest's direct program, then a portion of the  
26 incentive dollars in Years 2 and 3 should continue to be allocated to spray valves. Staff has  
27 recommended that Southwest track participation with respect to each type of commercial  
28 ...

equipment and, if appropriate, shift expenditures between measures to maximize participation and program cost-effectiveness.

14. Staff analysis indicates that gas fryers are not, currently, a cost-effective DSM measure. Staff has recommended that gas fryers be eliminated from the program unless and until they can be included on a cost-effective basis. Staff has recommended that expenditures originally allocated to the fryer measure be reallocated to other, more cost-effective, program measures.

15. While marketing costs represent a large proportion of the budget, the program is new and extensive marketing may aid in effecting the transformation of an industry with a high potential for energy savings, but also significant barriers to adoption of energy-efficient equipment. Smaller restaurants are often undercapitalized and extremely sensitive to the incremental costs of high-efficiency equipment, while chains or franchises often make equipment purchasing decisions outside the local market, making it difficult to market to buyers in advance. Staff has recommended that Southwest monitor marketing for the program, and make adjustments, if necessary, to maximize the benefits of spending in this area.

16. Southwest's proposed budget is provided in the following table:

Description	First Year	Subsequent Years
Communication	\$91,420	\$86,420
Outreach	\$45,000	\$35,000
Training/Education	\$126,800	\$126,800
Administrative Costs	\$15,000	\$15,000
Incentives	\$721,778	\$736,780
Total	\$999,998	\$1,000,000

17. With respect to the program as a whole, Southwest will track participation, energy savings and demand reductions, along with inquiries, website hits and attendance at food industry energy conservation events. Participants will also be surveyed regarding the effectiveness of the program.

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1           18.     With respect to the spray valve component only, ADWR has hired a consultant to  
2 track the spray valve installations funded through Southwest (as well as those funded by SRP).  
3 The consultant will track water usage for each participant for a year and confirm that the spray  
4 valves installed under the program remain in place.

5           19.     Where replacement of existing equipment is concerned, Staff has recommended  
6 that the primary purpose of Southwest's Commercial Equipment DSM program be to replace less  
7 efficient natural gas equipment with the most efficient natural gas equipment currently available.  
8 It is Staff's position that DSM dollars should not be used to promote fuel switching. Although  
9 electric savings may result from gas DSM measures, and may be included in calculating a  
10 program's cost-effectiveness, the primary goal of a natural gas DSM program is to conserve  
11 natural gas in a cost-effective manner.

12           20.     Staff's analysis of the program indicates a cost-effectiveness ratio of 2.46, with the  
13 fryers eliminated. Staff's analysis indicates that commercial fryers would not be a cost-effective  
14 measure, given the large incremental cost and low level of gas savings provided by current higher-  
15 efficiency models. (Staff's analysis of the gas fryer measure indicates a cost-effectiveness ratio of  
16 0.64.) Staff's analysis also indicates that while including fryers in the program would lower  
17 overall cost-effectiveness to 1.87, shifting expenditures from fryers to other program measures  
18 would increase overall cost-effectiveness. In the future, if the incremental cost of including gas  
19 fryers in the program decreases, or fryers become available that offer greater therm savings, then  
20 gas fryers should be considered for inclusion in the program.

21           21.     Staff has modified Southwest's estimate of environmental savings to reflect the  
22 elimination of fryers as a measure, and to reflect the therm savings for each measure indicated by  
23 Staff's research. The environmental savings may be higher if the spray valve program is  
24 continued, or if incentive dollars intended for fryers are shifted to other measures. These estimates  
25 are set forth in the following table:

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## ESTIMATED ENVIRONMENTAL BENEFITS

Annual Savings	CO <sub>2</sub> (lbs)	NO <sub>x</sub> (lbs)	SO <sub>x</sub> (lbs)	H <sub>2</sub> O (gallons)
2007	3,194,732	687	17	252,824,968
2008	1,556,732	687	7	1,086,461
2009	1,556,732	267	7	1,086,461
Lifetime Savings	54,891,954	10,842	271	1,794,059,919

22. Staff has recommended that Southwest include the following information concerning the Commercial Equipment program in its semi-annual DSM reports: (i) the number of participants, (ii) the level of participation for each measure included in the program; (iii) the amount of funding spent during the time period being covered, (iv) samples of its marketing materials, (v) the types of facilities where high-efficiency equipment is being installed, and (vi) the data and survey information gathered by Southwest with respect to the program as a whole, along with any follow-up studies or other information provided by ADWR with respect to the spray valve distribution.

23. Staff has recommended that the size of the incentives be reviewed if participation in the program is at or above the anticipated levels.

24. Staff has recommended that rebates be paid only to participants who are purchasing high-efficiency natural gas commercial equipment for installation in areas serviced by Southwest.

25. Staff has recommended that, with respect to replacements, the primary focus of the program be replacement of less-efficient natural gas-powered equipment, rather than replacement of less-efficient electric equipment.

26. Staff has recommended that Southwest track participation with respect to each type of commercial equipment and, if appropriate, shift expenditures between measures to maximize participation and program cost-effectiveness.

27. Staff has recommended that gas fryers be eliminated from the program unless and until they can be included on a cost-effective basis.

28. Staff has recommended that expenditures originally allocated to the fryer measure be reallocated to other, more cost-effective, program measures.

29. Staff has recommended that Southwest monitor marketing for the program, and make adjustments, if necessary, to maximize the benefits of spending in this area.

30. Staff has recommended that the following information concerning the Commercial Equipment program be included in the semi-annual DSM reports: (i) the number of participants, (ii) the level of participation for each measure included in the program; (iii) the amount of funding spent during the time period being covered, (iv) samples of its marketing materials, (v) the types of facilities where high-efficiency equipment is being installed, and (vi) the data and survey information gathered by Southwest with respect to the program as a whole, along with any follow-up studies or other information provided by ADWR with respect to the spray valve distribution.

31. With respect to replacements, Staff has recommended that the primary focus of the program should be on replacing less efficient natural gas equipment with the most efficient gas equipment currently available<sup>1</sup>, rather than replacing less efficient electric equipment.<sup>2</sup> In a broader consideration of overall energy efficiency, however, we find that it is in the public interest to replace less efficient equipment with more efficient equipment, regardless of the form of energy used to power the less efficient equipment that is to be replaced. Therefore, we will allow the program to provide for the replacement of less-efficient electric equipment with more efficient gas-powered equipment, in addition to replacing less efficient gas-powered equipment with more efficient gas-powered equipment.

32. The Commission, having reviewed the application and Staff's Memorandum dated August 7, 2007, concludes that it is in the public interest to approve the Commercial Equipment program with the modifications and recommendations made by Staff, except that the program will provide for the replacement of less-efficient electric equipment with more efficient gas-powered equipment.

#### CONCLUSIONS OF LAW

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<sup>1</sup> Page 5, Finding of Fact No. 19

<sup>2</sup> Page 6, Finding of Fact No. 25

2. The Commission has jurisdiction over Southwest and over the subject matter of the application.

IT IS THEREFORE ORDERED that the Commercial Equipment program be and hereby is approved, as modified herein.

IT IS FURTHER ORDERED that rebates be paid only to participants who are purchasing high-efficiency natural gas commercial equipment for installation in areas serviced by Southwest.

IT IS FURTHER ORDERED that Southwest track participation with respect to each type of commercial equipment and, if appropriate, shift expenditures between measures to maximize participation and program cost-effectiveness.

IT IS FURTHER ORDERED that expenditures originally allocated to the fryer measure be reallocated to other, more cost-effective, program measures.

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1. **Introduction**

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1 IT IS FURTHER ORDERED that Southwest include the following information concerning  
2 the Commercial Equipment program in its semi-annual DSM reports: (i) the number of  
3 participants, (ii) the level of participation for each measure included in the program; (iii) the  
4 amount of funding spent during the time period being covered, (iv) samples of its marketing  
5 materials, (v) the types of facilities where high-efficiency equipment is being installed, and (vi) the  
6 data and survey information gathered by Southwest with respect to the program as a whole, along  
7 with any follow-up studies or other information provided by ADWR with respect to the spray  
8 valve distribution.

9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

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COMMISSIONER

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COMMISSIONER

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COMMISSIONER

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COMMISSIONER

19 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim  
20 Executive Director of the Arizona Corporation Commission,  
21 have hereunto, set my hand and caused the official seal of  
22 this Commission to be affixed at the Capitol, in the City of  
23 Phoenix, this 28 day of August, 2007.

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25 DEAN S. MILLER  
26 Interim Executive Director

27 DISSENT: \_\_\_\_\_

28 DISSENT: \_\_\_\_\_

EGJ:JMK:lbm\JFW

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